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Preschools and Privatization

ELLEN MAGENHEIM

Unlike primary and secondary education, which has been widely held to be a public responsibility, the care of preschoolers has traditionally been viewed as the private responsibility of the family. That perception, by no means universal, has slowly been changing. Although some still hold that the care and education of young children is a private obligation, the belief is becoming more common that there is some public responsibility to ensure that children enter school ready to learn; participation in early childhood education programs can contribute to that objective. This involves a shift in thinking with respect to financing of preschool education; this is reflected in the development of tax credits to lower the cost of purchasing child care, and in public financing of federal and state early childhood education programs. The expansion of the Head Start program, enforcement of state child care regulations, and increasing public financing support for public and private preschool programs all reflect this shift in perception.

The impetus for change has two dimensions, which are explored more fully below. The first arises from the substantial increase in women's participation in the labor force, particularly by mothers of young children. The second, as noted above, is growing recognition that early childhood education programs can contribute to children's development, particularly to their ability to enter grade school ready to learn. These two dimensions highlight the fact that early childhood education is at the nexus of needs among working parents and children. In

this context, I examine the questions raised by privatization in the provision of early childhood education.

The Issues

Unlike other types of education, early childhood education and, more generally, child care, have long been provided predominantly through the private sector. E. Kisker et al. (1991) estimate that about one-third of child care centers (including early childhood education programs) are for-profit and two-thirds are nonprofit. Within the nonprofit category, 9 percent are Head Start programs, 8 percent public school programs, and the balance are independent or sponsored (e.g., by a religious organization) programs. In other words, it appears that only 9 percent are definitely publicly provided, and some portion of the Head Start programs may involve public support. Although these categories do not correspond precisely to early childhood education providers, they do give an impression of the composition of the field. Further, the tradition, again with the exception of Head Start and a relatively small number of publicly funded programs, has been for early childhood education to be paid for by parents.

The field offers a range of interactions between private and public sectors; consumers and producers interact along this continuum, from private to public sector. At one extreme are private individuals paying for services provided by private programs. At the other extreme are private individuals whose children participate in public preschools, offered as part of the public education system. In-between are a range of types. First, there are private individuals who receive subsidies through the Child and Dependent Care Tax Credit or Dependent Care Spending Accounts; that is, their purchases of child care or early childhood education activate beneficial tax treatment. Second, there are private service providers operating with funding from public sources or a mix of public and private funds and operating in compliance with local, state, or federal regulations. Third, there are individuals, with vouchers or cash subsidies, choosing from the full range of early education and child care providers that are available in their communities. In each of these three intermediate cases, there are private decisionmakers whose consumption or production decisions are affected by public funds.

Despite the fact that private provision, financing, and parental choice are not new to the field, there are important changes occurring in the provision of early childhood education that make further examination of the implications of privatization important. At the most general level, the issue to be asked is whether the current mix of public and private providers (both for-profit and nonprofit) is optimal. Given the growth in publicly funded prekindergartens in many states, this

is an important time to consider whether private and public concerns are well met by the highly fragmented and decentralized system of early childhood education that currently exists. What might be the advantages of having a fragmented, predominantly private system of provision as opposed to a public system? The standard thinking is that there will be more incentives for efficiency, greater responsiveness to consumer desires, and that competition between public and private providers may drive up quality while driving down costs and price. Conversely, public provision would capture economies of scale and help to alleviate variations in quality that are correlated with ability to pay and would, perhaps more importantly, help to overcome issues of accessibility for low-income families. Further, it is easy to apply to early childhood education the same argument that is applied to primary and secondary education; that is, there are positive externalities that are generated when young children participate in good early childhood education programs and that the market (i.e., the decentralized system) will produce less than the optimal quantity of early childhood education services.

Clearly, however, a move toward centralization and public provision of early childhood education through the public school system goes in the opposite direction of the rest of the education sector, meaning privatization. In a sense the early childhood education sector, which is already heavily privatized and, even in an era of increasing public funding, continues to be heavily reliant on private provision and parental choice, provides a laboratory in which many of the arguments made in favor of privatization of education can be tested. Before it is possible to begin to formulate an agenda for research in this area, a profile of what the world of early childhood education looks like is needed.

First, the primary component of such a project requires documentation of who provides the services, who receives them, and how they are financed. Second, it is important to consider what types of providers are most likely to meet the expanding demand for early childhood education programs. The 105th Congress approved passage of Public Law 105-285 (sec. 107) that allows for-profit providers to be Head Start grantees; prior to this amendment, Head Start grantees were either public or private and not-for-profit. In a time of growing demand, it is reasonable to predict that the role of for-profit providers will expand. Third, given this prediction, and given the mix of providers already in place, it is important to consider whether auspices matter. In other words, is there a distinction in terms of efficiency of production, price, and quality of care provided between public and private providers and, within the second category, between for-profit and nonprofit providers? Clearly, to the extent that there are discernible differences, there arise important implications for efficient use of resources ex-

pended both privately and publicly. The role of quality differences among providers is a complex and much debated one; there are debates over what constitutes quality (as defined by different constituencies), how to measure quality, and how to measure the effects of early childhood education program participation on children. In this chapter, I will not address in depth the quality debate, except to examine evidence on the relationship between the range of quality characteristics and provider auspices.

Fourth, the implications of financing for parental choice must be considered. Do parents paying for services privately make different choices than parents using vouchers or receiving cash subsidies, all else being equal? As parent subsidies and voucher use become more widespread—as they have through allocation of funds from the Child Care Development Fund (CCDF)—their effects on parental choice and the efficiency of use of resources call for further study. Fifth, it is important to consider whether the current trend (i.e., toward increasing public financing and, in some cases, provision of early childhood education for more children, particularly low-income children) will generate more widespread support for publicly financed and provided prekindergarten for all children, following the example set in a number of European countries. In the United States, there has been widespread acceptance of age five as the appropriate starting point for public education; it must be considered whether in the long run there will be increasing pressure for and acceptance of the appropriateness of universal early childhood education, and then, if so, whether this will be a desirable development.

Before turning to the question of why these topics are important, I would like to define what I will and will not include in the category of early childhood education for this chapter. The term “early childhood education” is sometimes used interchangeably with the more general term “child care,” which can be used to include any type of arrangement that is primarily intended to care for children so that their parents can work. Child care encompasses a range of services, including informal care by a relative or unrelated individual in the child’s home, family day care centers, child care centers, nursery schools and preschools, and multiple service education programs, the most well known of which is Head Start. Early childhood education programs have traditionally focused on the needs of children rather than on the employment needs of parents. Clearly, this overlaps with some types of child care, such as child care centers with an educational component. E. Zigler and Finn-Stevenson (1996) argue that it would be desirable to eliminate this distinction between child care and early childhood education, but the reality for now is that they meet different needs by, in most cases, providing different services, although, again, there may be overlap.

Working parents might arrange for their children to participate in early education programs as well as child care to cover all the parents' working hours. Children with mothers who are not in the formal labor force may participate in early childhood education programs in order to enjoy the developmental benefits. It is difficult to treat these two types of services as discrete; child care settings, such as centers, may include some developmental activities, even if development is not the primary focus; early childhood education programs may extend to full-day, year-round operation to meet the developmental needs of children and the employment needs of parents simultaneously.

The Head Start program offers a good example of this blurring of boundaries. It is, unambiguously, an example of early childhood education. As parents of children participating in Head Start enter the labor force or training programs, part-time Head Start programs are inadequate to meet the needs of parents for full-day, year-round operation, thus failing to serve early education and child care simultaneously. In this chapter, I will focus most of the discussion on explicitly educational programs, but it must be recognized that the overlap with child care is a complicated one, in terms of definition as well as private and public decision-making. Since different institutions use somewhat different definitions for distinguishing between child care and early education, some of the data presented later in this chapter may appear to be not directly comparable but will, nevertheless, indicate trends in participation in both types of care.

Another way to attempt to distinguish between early childhood education programs and child care programs is by the provider's self-report of the organizations primary objectives. Kisker et al. (1991) report that of center-based programs, 56 percent report that their main goal is to provide a loving environment; 20 percent report the main goal as child development, 13 percent school preparation, and 3 percent compensatory education.

Finally, adding to the complexity of this topic is the fact that the types of care that families choose for their young children follow systematic patterns as the child grows; it is more common for an infant or young child to be in in-home, relative care, or in a family day care home. When a child reaches age three, transitions into formal child care or early childhood education arrangements become more common; for that reason, in this chapter I focus on early childhood education primarily serving three- to four-year-olds. Employment of age three as the lower bound means that this chapter will not engage another area of growing interest and knowledge: the development of children under the age of three. This awareness is reflected in the establishment in 1994 of the Early Head Start program, which targets children younger than three from low-income families. Nev-

ertheless, since the vast majority of early childhood programs focus on three- and four-year-olds, this lower age limit will be used in this chapter.

Why Are These Issues Important?

Study of privatization in early childhood education is important for two reasons: The first is related to the needs of working parents, the second to the needs of children.

The demand for nonparental child care has grown substantially over recent decades, primarily due to the increase in working mothers; in 1997, 61 percent of married mothers with children under the age of six were working (Council of Economic Advisors [CEA], 1998). Between the late 1970s and early 1990s, the number of children under age five with employed mothers being cared for by someone other than their parents rose from slightly over 3 million to nearly 8 million (CEA, 1997). These data provide evidence that it has become increasingly common for mothers of young children to participate in the labor market. Increased work requirements mandated by Temporary Assistance for Needy Families (TANF) is calling forth further increases in child care demand.

Parents solve their child care needs with a variety of options. The Census Bureau (Casper, 1996) reports that in 1993 children younger than five with employed mothers were in the following range of situations: 30 percent attended child care centers (which include center-based child care as well as nursery schools and preschools), 17 percent attended family child care homes, 25 percent were cared for by relatives other than parents, 5 percent were cared for by nonrelatives in the child's home, and 22 percent were cared for by the parents themselves.

Concurrent with growth in demand for all types of child care is the increasing recognition that preschool improves children's development and, more specifically, school readiness. This recognition was manifested in the establishment of the National Education Goals (the Goals 2000: Educate America Act was passed in 1994). Goal 1 ("All children will start school ready to learn") explicitly defines as an objective that "all children will have access to high-quality and developmentally appropriate preschool programs that help prepare children for school" (National Educational Goals, 1998). Further legislative support for educating young children was manifested in the expansion of Head Start (Head Start Amendments of 1994). More recently, Congress passed Public Law 105-285 (sec. 102), which makes explicit that school readiness is one of the goals of the Head Start program (although this was implicit in the prior statement of the goals of Head Start, the rewording stresses this objective). Further, Head Start funding has tripled between the late 1980s and 1998 (General Accounting Office [GAO], 1998). In addition,

the Child Care Development Fund, which combines a variety of earlier funding programs including Transitional Child Care and the Child Care and Development Block Grants, provides additional funding for child care in general, some of which is used to pay for participation in early childhood education services.

Evidence that policymakers at the state level are responding to this goal can be seen in the increase in the number of states with publicly funded prekindergarten programs. A. Mitchell et al. (1998) find that thirty-nine states have funds for prekindergarten programs or other educational funding for four-year-olds and only eleven states have no state funds dedicated either to Head Start or other prekindergarten programs.

Data from earlier in this decade suggest that a relatively small portion of three- and four-year-olds participate in early education programs; evidence suggests that attendance is related to a number of family characteristics. According to Department of Education (DOE) data (DOE, 1998), in 1996, 37 percent of three-year-olds and 58 percent of four-year-olds were enrolled in preprimary education; figures jump to a much higher 90 percent for five-year-olds, presumably because of kindergarten enrollment. Preprimary education is defined by the DOE to include Head Start, nursery schools, prekindergarten, and kindergarten. Patterns of enrollment across racial, ethnic, and income groups varied. Specifically, black and white children were equally likely to participate; enrollment rates for Hispanic children were lower. There was a positive relationship between family income and enrollment and between parental educational attainment and enrollment. It is worth noting that participation in early childhood education programs has grown by 50 percent between 1980 and 1996 (Federal Interagency Forum on Child and Family Statistics, 1998).

Earlier evidence also suggests that family characteristics are associated with preschool attendance and that the children likely to enjoy substantial benefits from participation in early childhood education programs are among the least likely to participate. Using data from the 1990 census, the General Accounting Office (GAO, 1994) finds that children from low-income families or whose parents did not graduate from high school were least likely to attend preschool; S. Hofferth et al. (1994), using the National Household Education Survey, reports similar findings. This evidence, too, no doubt helps to support state expansion of prekindergarten funding and service provision.

The policy reaction to the school readiness goal and the recognition that there are income-, education-, and racial/ethnic-related patterns in participation has taken the form of a substantial increase in public financing and, to a lesser degree, provision of prekindergarten. In 1999, Vice President Al Gore, in a speech presenting his presidential campaign agenda, called for all public schools to make

preschool education available (*New York Times*, 3/16/99). The range of options offered across the states is substantial: Georgia has a universal program financed by a new lottery; New Jersey will offer services for school districts designated as being in special need of services; and New York allows local districts to use funds to offer early childhood education programs. Services are typically provided through a mix of public and private providers, with some state funds used to expand the existing private early childhood education sector (for more examples, see Kaplan, 1998; Mitchell et al., 1998).

What can be seen clearly is that participation in preschool programs has risen over time and that attendance in programs is not evenly distributed across the population. If these attendance patterns are coupled with an overall increase in demand for child care and with concerns about children's preparedness for school and the ability of good preschool experiences to help with school readiness, then the importance of further examination of these issues can readily be seen. Next we consider the groups that have an interest in these issues and the nature of their concerns.

Who Are the Stakeholders with an Interest in This Issue and What Are Their Interests and Concerns?

The complex mix of consumers, producers, and funders of early childhood education translates into a list of stakeholders representing a range of interests in the current configuration of this sector and in potential changes that might occur with respect to provision and financing. In discussing their concerns, I rely primarily, but not exclusively, on recognition of the fact that these stakeholders are operating in a largely private market for early childhood education services, although one in which the public sector plays a big role with respect to funding and a smaller but still tangible role in provision. The diversity of providers and the ways in which consumption decisions are made and financed raises the potential for competition, a topic that surfaces repeatedly throughout the discussion below.

Who Are the Stakeholders with an Interest in This Issue?

The stakeholders with an interest in the issue of privatization and early childhood education include parents of the children who participate in these programs and parents of children who do not because of problems with accessibility and affordability (or by choice). The providers of early childhood education services, including public and for-profit and nonprofit providers, are interested in

parental choices, public policies that will affect the conditions under which they provide their services, and in the actions of their competitors. The same considerations—that is, parental choice, public policies, and competitors' actions—are of interest as well to providers of child care services that are not explicitly educational but that are for some families substitutes for or complements to early childhood education.

Moving away from immediate consumers and producers of early childhood education, another set of stakeholders with an interest in the quantity and quality of early childhood education includes the teachers and schools that will receive these children into their classes and who, in systems that have public preschools, may be involved in the provision of services or the reallocation of resources toward preschools. Finally, policymakers at the local, state, and federal levels are stakeholders in this issue. Local policymakers' interests focus on school readiness issues; state policymakers' interests coincide with those of federal policymakers not only as to educational goals but also the ability of early childhood education providers to support the framework of services necessary to enable parents to work, with a special concern for the needs of low-income parents and those leaving welfare.

What Are the Stakeholders' Interests and Concerns?

The concerns that I list below are related to the current orientation of mixed public and private provision, to likely changes toward increasing privatization, and to the less likely possibility of a move toward more centralized public financing and provision of early childhood education programs.

Parents. Parents can participate in the early childhood education sector in several ways. They can send their children to prekindergarten programs offered by local public schools; they can pay themselves for their children to attend a variety of types of preschools; they can use vouchers or subsidies to choose child care or early education programs for their children; or they can choose to not participate. Parents who participate have a range of concerns; some they share in common, but others are specific to their situation.

Parents' concerns include the availability, accessibility, quality, and cost of care. These are complicated by the fact, discussed above, that early childhood education can be seen to serve two goals simultaneously: child development and child care. Parents will be concerned with the extent to which early education programs foster children's development and, in some cases, the extent to which these programs enable parents to meet their work obligations. There will be parents,

too, who are not committed to the importance of formal early childhood education (or child care more generally) and feel that children should be at home until beginning kindergarten or first grade; for such parents, public funding of prekindergartens may be a concern (see, e.g., *Los Angeles Times*, 3/14/99, on support for expansion of Child and Dependent Care Tax Credit eligibility to include at-home parents).

For parents who do want their children to participate in early childhood education programs, there will be issues of access and affordability. For very low income families, Head Start is an attractive option in that it is generally regarded as being of high quality. Nevertheless, Head Start has historically been unable to meet the needs of all children who are eligible for participation; in 1993, for example, Head Start was able to serve only 29 percent of eligible three- and four-year-olds (GAO, 1995); as Head Start funding has increased this problem has been ameliorated but not eliminated. Furthermore, historically Head Start programs have been part-day, part-year programs and, as a result, do not meet the needs of working parents. Although the number of, and funding for, full-day, year-round programs are growing, they are still limited.

Neither should it be suggested that issues of access, cost, and quality are relevant only to low-income families eligible for Head Start. Families across all groups may experience difficulties locating programs that meet their needs at a price that they consider affordable. Affordability is a complicated topic and raises the possible divergence between what parents say they are willing and what they are able to pay for care. A significant part of this problem of locating care arises from information asymmetries in the child care market that can make it difficult for parents to determine what options are available (Magenheimer, 1995).

Discussions of quality of care are complicated in part because parental definitions of "quality care" may not coincide perfectly with expert opinion. For example, parents may put a relatively lower weight than do experts on child-teacher ratios and a higher weight on the program's location or hours of operation. Thus, parents may be concerned as to whether increasing public funding or regulation will lead to more or less care with respect to the characteristics they value.

The relationship between parents' concerns and the issue of privatization arises through the mechanism of competition and choice. Parents face issues of choice because ours is a predominantly private market with a substantial amount of product differentiation (Magenheimer, 1995). If the mix of public and private providers facilitates competition, then in theory there should be pressure for providers to offer the types of services that parents want in an efficient (and therefore lower-cost) manner. One organizational alternative, of course, is to have universal, publicly provided early childhood education, with costs spread

over all taxpayers and quality determined by educational experts. The trade-offs inherent in a transition to a centralized system are discussed later in this chapter.

Given the current configuration of public and private financing and predominantly private provision, parents may also be concerned about the extent to which their children are segregated in particular programs. The best example of this problem, again, is Head Start; because it must allocate 90 percent of slots to eligible children, Head Start ensures that nearly all the students in the program will be from low-income families. As D. Besharov and N. Samari (1998) note, vouchers—which allow parents to purchase early education services at any provider that will accept the voucher rather than the limited set of providers who have entered into grants or contracts with federal, state, or local governments—may help to reduce segregation. Thus, parents who are eligible for early education subsidies will be concerned with the form that the subsidies take and the extent to which the subsidies enable them to exercise choice.

Finally, it should be noted that some parents who believe that preschool-aged children should not be in any sort of nonparental care may express opposition to expanded availability of preschool programs, either public or private, funded by public dollars. Alternatively, some believe that tax credits, subsidies, and other programs that are available to help parents employed outside of the home to bear the cost of child care should also be made available to at-home parents.

Early Childhood Education Providers and Child Care Providers. I combine the discussion of the concerns of these two groups of stakeholders because they are so intimately related to one another. Before turning to their specific concerns, it is important to note that the diversity of current providers is not likely to be reduced by the increases in state funding for prekindergarten programs; only seven of the thirty-nine states that provide funding for prekindergarten programs require that funds go only to public schools (Mitchell et al., 1998). In addition, CCDF funds can be used to purchase services from any type of child care provider.

The providers of early education services will be most concerned with the extent to which the growth in public financing affects the demand for their services as well as the conditions they must meet in order to offer services and receive public funds. For example, in New Jersey, where early education programs will be offered as an outcome of the *Abbott v. Burke* school finance decision, terms have been specified regarding teacher qualifications and class size that are more stringent than is typical for early childhood education providers (see Barnett et al., 1999). If these requirements are upheld, some providers will have to hire additional and, in some cases, more highly trained teachers to meet the certification

and staffing requirements. This, in turn, will put competitive pressure on salaries for teachers and assistants both by increasing demand overall and by increasing demand for more highly trained teachers. The first effect of this will be to raise the cost of production for the early childhood education providers. But as an additional effect, it may help to draw good workers in child care settings to the new, more highly paid opportunities. In turn, this may cause wages to rise in the regular child care setting, which again will lead to higher costs and prices. To put it more directly, by increasing demand for early childhood education and increasing costs through teacher certification and size requirements, costs and prices throughout this sector for both early childhood education and child care can be expected to rise. If public funds cover the additional costs then subsidized providers will be unharmed, but this pattern may cause a reduction in demand by private-pay clients.

A variation on this concern has arisen in New York, where publicly funded preschool services will be provided through public schools as well as through private providers because public provider capacity is inadequate to meet demand. If private providers train their workers to meet certification standards, concerns have been expressed that these newly certified teachers will then leave lower-paying jobs in private centers for higher-paying jobs in public schools (*New York Journal News*, 12/22/98). Although I pointed out earlier that increasing demand for certified teachers likely will drive up wages for teachers, there is no guarantee that they will rise in private programs to the same levels as in public schools. Overall, then, providers are concerned about how expanded public financing, demand, and quality requirements will affect input costs, demand, and their competitive position.

Competition between the range of private providers, both for-profit and non-profit, would obviously disappear as an issue if all early childhood education became integrated into the public school system (a proposal of this type, "The School of the 21st Century," is discussed in the next section). Although some of the child care and early childhood education labor force could be integrated into a public school-dominated system, differences in certification requirements might eliminate opportunities for the many less-educated members of the labor force to find employment in a public early childhood education system. Further, the potential for ownership and control of individual enterprises would be greatly restricted, although, presumably as with private primary and secondary schools, some parents would choose to send their children to private preschools with, perhaps, a particular religious or educational orientation. This discussion does not presume that it is likely that early childhood education will become a predominantly public enterprise; concerns of the type discussed here and in the

next section suggest the concerns of stakeholders who might seek to support or oppose political proposals to move toward universal public provision.

Substitution of vouchers for grants and contracts between states and early education providers may also be a cause for concern among providers. If providers who previously had stable contract or grant relationships now have to compete with all providers for consumers, it may represent an unwelcome change in operation. Although increased use of vouchers and, therefore, increased opportunities for parents to exercise choice may have other positive benefits, they will presumably not be seen as desirable by providers who are losing more stable arrangements. In contrast, providers who did not have contracts or grants and who, as a result of vouchers, are accessible to a greater array of subsidized customers will view the move toward vouchers more positively.

Teachers and Schools. The interests of teachers and schools can be divided into two general categories. First, this set of stakeholders is specifically interested in the extent to which children do enter school ready to learn, the role played by participation in early childhood education programs in meeting this goal, and the potential need to offer special services and supports to children who do not meet this goal when entering school. Second, to the extent that some prekindergarten programs will be offered by public schools, the kinds of issues about quality, adequacy of supply, and staffing considerations discussed immediately above may apply here as well, especially given that demand for resources for prekindergarten programs may be partially drawn away from expenditures on older children. In addition, there may be conflict over whether prekindergarten programs should be under the control of public schools and whether public funding should be provided only to the lowest-income districts, to all districts, or to some other configuration (for anecdotal evidence on these issues see, e.g., *New York Times*, 1/12/99; *Record*, 2/11/99).

One proposal that highlights the magnitudes of these possible concerns is "The School of the 21st Century" (Zigler and Finn-Stevenson, 1996; Finn-Stevenson, Desimone, and Chung, 1999). This program would integrate early childhood education into the public school system and is, in fact, being implemented at several schools now. Although a program of this type would largely solve the problem of accessibility for most parents, it also raises issues of control over resources, financing sources, and the loss of diversity in offerings that currently exists in the noncentralized system.

Policymakers. Discussion of the concerns of policymakers is complicated by the fact that involvement varies by governmental level. Local governments are in-

volved in implementing and enforcing regulations that affect provision of services and local school districts in providing public education. States' financial involvement in the education market can take a variety of forms. Following the typology developed by Mitchell et al. (1998), states can enable services to be provided in one of the following ways (if they provide state-funded services at all): through public school districts only; through school districts and other agencies by subcontracting with local school districts; and through school districts and other agencies by direct contract from state agencies. Federal policymakers—the third subset among this group of stakeholders—are concerned with allocation of funds to support parental purchases of child care, particularly for parents who need care as part of the welfare reform effort. I will examine a limited set of concerns arising from these policy responsibilities, considering what I think are the most basic issues regarding supply, quality, allocation of resources, and organization.

The question of whether there is adequate supply sounds straightforward enough (e.g., does supply equal demand?); however, it quickly becomes complicated by issues of quality, accessibility, and affordability. Evidence cited earlier indicates that not all children eligible are able to participate in Head Start programs, although they may be able to find places in other programs. Further, it is difficult to know whether parents who place their children in other arrangements—such as family day care homes or child care centers—do so because that is their first choice, because they cannot find an early childhood education program, or because they cannot find one that meets their work schedule. Therefore, if we look at the number of three- and four-year-olds and see how many slots there are in all types of care, that will not necessarily answer the question of whether there is adequate supply.

A common reaction to this phenomenon is that it is not a problem at all—it occurs in the consumption of many types of goods and services. Consumers may not be able to find a car they want or can afford; they may not be able to find affordable airfares for their travel dates. This may be par for the course in consumerism, but the stakes are much higher for early childhood education: school readiness as well as the positive externalities generated by good early childhood programs.

Anecdotal evidence from states establishing early prekindergarten programs suggests that shortages may be encountered (see *Hartford Courant*, 1/31/99). Some of the barriers to Head Start expansion that may be relevant to other types of providers as well are noted in a GAO study (GAO, 1995). These barriers to expansion may be problems only in the short run and will be resolved in the long run, but what is not known is how long this adjustment will take.

Beyond the simple question of quantity of new supply is the question of the quality of new supply. Evidence in the past has shown that for-profit child care providers have been quicker to respond to increases in demand compared to nonprofit and public providers (Magenheim, 1995). Although some researchers find no difference in quality, others report that for-profit providers offer, on average, lower-quality services than do nonprofit and public providers (Helburn, 1995; Whitebook et al., 1990; and Phillips et al., 1992); there may be cause for concern as to whether there will be enough care of appropriate quality or of the quality mandated by state regulations. These studies used child care rather than early childhood education programs as their sample, so caution must be used in interpreting the results. Discussions of quality are further complicated by the fact that parental preferences may not overlap precisely with those of early childhood experts, whose definitions are generally used in expert assessments. As was discussed earlier, for example, parents may put relatively higher weight on hours of program operation and availability of facilities for sick children than do experts; thus supply expansion may be limited by the regulated demands for quality even though parents might prefer aspects of care that would be less of a barrier to supply expansion.

An issue that policymakers need to face is how to allocate funds to subsidize provision of early childhood education. This can be done through grants and contracts between the public funding source and specific providers. This is, of course, the traditional model used for Head Start providers. One alternative, which has grown in popularity for subsidizing consumption of child care by low-income families with CCDF funds, is the use of vouchers. Decisions about how to allocate funds can complicate political decisionmaking about preschools. In one case, despite a state senate's support for prekindergarten programs intended to achieve a school readiness goal, the decision became complicated by one legislator's desire to allocate public funds for prekindergarten through vouchers. The focus of the discussion shifted from the goal of school readiness—for which there was widespread support—to the allocation mechanism, since vouchers were considered so controversial (*St. Petersburg Times*, 1/20/99).

States—or the federal government—can provide cash or vouchers to parents, who then use them to purchase early childhood education services from any provider. Vouchers are already widely used in the allocation of federal funds. Funds from the CCDF can be channeled to families in the form of cash or vouchers; they can also be transferred through grants or contracts directly to child care providers, although this is not typical (U.S. Department of Health and Human Services [HHS], 1998). Besharov and Samari (1998) discuss possible benefits of vouchers. Citing C. Ross and S. Kerachsky (in Besharov, 1996), they note that

vouchers enable parents to choose from a greater range of options than if public funds go directly to a small set of providers.

Vouchers are lauded for their potential to facilitate competition, which in theory should lead to improved quality and lower prices. In support of this view, Besharov and Samari (1998) cite D. Osborne and T. Gaebler (1992), who argue that voucher recipients will not consume the services of providers who do not meet the needs of consumers, and will, as a result, drive them out of business. This argument holds, however, only if consumers are well educated about their options and have good information regarding the characteristics of alternative products. As noted earlier, this may not be the case for parents of children participating in early childhood education and child care programs (Magenheimer, 1995). Although there are some institutions that serve to facilitate this transfer of information in the child care/early education sector, most notably resource and referral agencies, there is no conclusive evidence regarding the extent to which consumers have good information or the extent to which vouchers drive competition and generate the benefits noted above.

This puzzle is summarized neatly by D. Stoesz (1992), as quoted in Besharov and Samari. He notes that both the public and private sectors yield examples of poor-quality services. The question is how to compare the different outcomes yielded by consumption with vouchers, public provision, and purchases made with cash. Some argue that there are reasons to assume that the integration of early childhood education into the public schools will yield better outcomes (e.g., Zigler and Finn-Stevenson, 1995); others argue that cash or vouchers will be more successful. This is an open question in general and, with respect to purchases of early childhood education in particular, it deserves further study.

Policymakers will want to not only know how vouchers affect parental choices but also consider other effects of vouchers. The standard argument in favor of vouchers is that by allowing parents to exercise choice, lower-quality programs (i.e., the programs that parents do not choose) will have to improve the quality of their services and become more efficient or risk being driven out of competition. Policymakers should want to see whether markets in which vouchers are available encourage, all else being equal, more competition and yield better outcomes.

Besharov and Samari (1998) go further in considering other possible effects of vouchers; specifically, they consider whether use of vouchers in child care (including but not limited to early education programs) can lead to cost increases or distributional distortions. For example, they cite evidence that providers offer discounts to private-pay consumers but charge consumers using vouchers the voucher limit even if it is above their normal fee. Thus, vouchers financed with tax dollars are used to subsidize private consumers; this is a distributional distortion.

tion that policymakers presumably did not intend. Further, public costs may increase if CCDF vouchers, which can be used for any type of child care arrangement, may result in relatives and friends—who had previously watched children for no charge—will now be paid for their work. On the one hand, this may simply reflect the monetization of a valuable transaction that would occur anyway without public compensation, but it does mean that more tax dollars will be channeled through vouchers than if these relatives could not now be paid. On the other hand, it is possible that voucher recipients, if prohibited from using the vouchers to pay relatives, might alter the child care arrangement that they use. In total, this suggests that there are many questions that need to be explored regarding the effects of vouchers on child care choices.

Federal and state policymakers dealing with welfare reform issues are likely to be concerned with the extent to which public funds that are used for early childhood education facilitate the labor market activities of former and current TANF participants. As noted above, although the focus in the types of expenditures of concern here is on preparing children for school through early childhood education, programs serve a dual purpose in meeting the needs of children and working parents. Evidence of this duality from a policy perspective is seen in increasing pressure and expenditures to support expansion of Head Start to full-day, year-round operation. Such expansion allows eligible children to enjoy the benefits of participation in Head Start while enabling their parents to work.

To summarize, concerns held by the parents, educators, producers, and policymakers arise from the combination of an existing fragmented and diverse set of early childhood education providers, competing in part with child care services, in a time of growing demand and expanding public finance. The importance of these concerns is amplified by the growing recognition that good early childhood education improves student achievement and the well-being of children and society.

What Types of Studies Might Address These Concerns?

The concerns raised above fall into several general categories dealing with supply, quality, vouchers, and the optimality of a fragmented rather than a centralized early childhood education delivery system. More specifically, the concerns can be restated in the form of the following questions:

1. Is there an adequate supply of early childhood education services? If not, what should be done to generate that supply?
2. How do public and private providers differ? Do they differ in ways that have important implications for the effects of early childhood pro-

grams on children and on public policy toward early childhood education?

3. What are the effects of participation in preschool programs on children?
4. How do vouchers affect parental decisionmaking and behavior of providers?
5. What is the optimal arrangement for delivery of early childhood education services? Is it the current fragmented system or a centralized public system?
6. More specifically, what are the advantages and disadvantages of each type of system?

First, I will review the existing literature that addresses these topics, then consider other types of research efforts that might inform these questions.

Review of the Literature

Before reviewing the existing literature on these topics, it is worth repeating the difficulty in distinguishing between child care and early childhood education services. In some studies the distinction is made clear, but in others it is less well defined. Although it is easy to set aside types of child care for younger children such as in-home care or family day care homes that do not have an explicit educational focus, it is harder to distinguish between formal child care, which may or may not include educational activities, and programs that are explicitly intended to educate preschoolers. When the lines are not clear in the literature reviewed below, the ambiguity will be noted.

Is There Adequate Supply? As noted above, the question of adequate supply appears to be straightforward but is not. Estimates can be made using population data and information on slots in licensed early childhood education programs, but the complications of the issues discussed above—particularly whether parents can find early childhood education programs that meet their needs—must be considered. Further, there is the question of what characteristics that supply will have. In other words, given the channeling of public funds for prekindergarten through private providers, there may be mismatches between the types of programs that are in excess and for which there is excess demand. As with supply in general, a privatized system in which competition is lively should have market forces take care of mismatches, but this presumes that the market will function as it should.

Finally, it must be asked how quickly supply will respond to changes in demand. If, for example, a voucher system allows parents to increase their demand for certain types of programs, will there be an adequate demand response? Presumably some of the recent or ongoing evaluations of state-funded prekindergarten programs, discussed more fully below, will shed light on this question.

How Do Public and Private Providers Differ? This issue concerns parents who make individual decisions about child care as well as policymakers who need to consider whether funds are being used to produce quality programs and whether resources are being used efficiently. The question here is whether public and private providers differ in the characteristics of the services they offer; yet economic theory suggests it is important to distinguish between for-profit and nonprofit providers, so it is really a three-way rather than a two-way distinction. One of the economic theories of why nonprofit organizations exist rests on information asymmetries and suggests that nonprofit institutions will arise when product quality is difficult to measure (Hansmann, 1980), as is true in the child care market. Nonprofit status signals that a provider has some objective other than profit maximization and thus may be more trustworthy than for-profit providers. Public providers are hypothesized to face still other incentive structures. Thus, this would lead to the prediction that quality levels may vary across all three types of providers.

Conclusions are difficult to draw, because previous studies present conflicting evidence, and some are not focused specifically on early childhood education programs. S. Helburn et al. (1995) report that there is no difference in quality between for-profit and nonprofit child care centers except in North Carolina, where state regulations allowed low staff training and low staff-to-child ratios. Other studies, however, including M. Whitebook et al. (1990) and D. Phillips et al. (1992), report that nonprofit providers offer higher-quality care compared to for-profit providers. Again, these results were derived from samples of child care centers, not early childhood education providers.

Research on the relative efficiency of different types of providers is also inconclusive. N. Mocan (1995a, 1995b) finds that there is no difference in the efficiency of for-profit and nonprofit providers but does find that providers that receive public funds—and therefore may be required to meet higher quality standards—operate at higher costs. Mukerjee et al. (1990) find that nonprofit providers have higher costs than for-profit providers. They trace these cost differences to the fact that nonprofits are characterized by different inputs and outputs (for example, they pay higher wages, and there is more teacher-student interaction), rather than because of inefficiency. These conflicting findings, coupled with the limita-

tion that these data are not solely from early childhood education programs, suggest that there is no consensus on this issue.

What Are the Effects of Participation in Preschool Programs on Children's Development? There is a large body of literature examining the effects of participation in early childhood programs. I will not attempt to review this very sizable literature but will mention findings and limitations that are indicative of the literature at large. Studies find a positive association between preschool participation and literacy scores (National Household Education Survey, October 1995), grade retention, social behavior (Barnett, 1995), school competence, and health status (such as immunization rates) (Reynolds et al., 1997). A. Reynolds et al. (1997) and S. Barnett (1995) review many of these studies. Results vary in terms of the magnitude and duration of positive results (Reynolds et al., 1997; Currie and Thomas, 1998). Further, the studies represent a broad range of evaluation techniques, and there are questions as to how informative or comparable some of these evaluations are (GAO, 1997).

An interesting insight into the long-term effects of participation in early childhood education programs, presented by J. Currie and D. Thomas (1998), highlights the need for further and careful analysis of the effects of these programs. They explore the findings from previous work that the positive effect of Head Start participation on black children's test scores disappears more quickly compared to white children. They report, based on their analysis of the 1988 wave of the National Educational Longitudinal Survey, that subsequent to their Head Start participation black children attend schools of lower quality than do white students. Thus, the shorter duration of the gain from Head Start may be associated with attendance at lower-quality schools. This finding suggests that analysis of the longer-term effects of early childhood program participation requires detailed analysis of the educational (and perhaps other) experiences that occur as the children age. This will help in the effort to distinguish between which effects can be attributed to early childhood education programs and which to other life experiences and characteristics.

More insight into this question should be gained in the future from the ongoing National Institute of Child Health and Human Development (NICHD) Early Child Care Study (HHS, NICHD, n.d.). This study follows a large sample of children during their first seven years of life and considers a wide range of child care characteristics, family characteristics, and aspects of child development, including social and language development, and behavior problems. Interestingly, analysis thus far finds that stronger predictors of children's behavior are found in the family, especially in maternal sensitivity, than in child care participation.

More evidence will be reported as the children move through early childhood education programs and enter school.

A related question is which aspects of early childhood education are related to child outcome. In other words, are positive effects associated with group size and staff-to-child ratios or specifically with teacher training? This kind of information, some of which will also be yielded by the NICHD study, will help policy-makers to work through the kinds of supply problems that might arise as noted above. If, for example, child outcomes are related only weakly, if at all, to teacher certification levels, then it would not be deleterious to, as New Jersey Governor Christine Todd Whitman has proposed in 1999 (Associated Press, 2/19/99), allow teachers with lower levels of training rather than B.A. degrees to teach in publicly funded early childhood education programs, especially if there are other features present that are shown to be positively associated with child outcomes.

To repeat, this discussion only touches on the very large number of studies that attempt to determine the effects of participation in early childhood programs. This literature clearly demonstrates a positive relationship between a variety of child outcomes and participation in childhood programs; to draw stronger conclusions requires a careful review of this literature to determine exactly what types of programs are included in the sample and to consider methodological issues, particularly whether there are adequate controls incorporated to deal with selection bias problems and to determine how generalizable are results from the particular samples employed.

Potential sources of information on these issues are state program evaluations. Some states are already engaged in evaluation efforts; J. Kaplan (1998) reports that state evaluations generally compare the differences in school performance and behavior between participants in state preschool programs and nonparticipants. Mitchell et al. (1998) report that of the thirty-nine states that allocate funds to at least one type of prekindergarten program, twenty-six have or are conducting evaluations. The types of evaluations cover a broad range, although most focus on measuring the effects of preschool participation on child development, school readiness, and subsequent school performance. For examples of two of what appear to be the most comprehensive evaluations see the High/Scope evaluation of the Michigan School Readiness Program (1997) and the Frank Porter Graham Center at the University of North Carolina evaluation of the North Carolina Smart Start Program (1998).

How Do Vouchers Affect Parental Decisionmaking and Behavior of Providers? As Besharov and Samari (1998) note, very little research has been done on the use of vouchers in child care; a fortiori, little is known about vouchers and early child-

hood education decisions in particular. Possible effects of vouchers, as raised by Besharov and Samari (1998), have already been noted throughout this chapter, as has the need for future study.

What Is the Optimal Arrangement for Delivery of Early Childhood Education? Although I have treated this as a separate topic, it really is a composite of the earlier questions. In other words, are the benefits of having a fragmented system, in which providers—public, private for-profit, and private nonprofit—coexist preferable to a centralized public system? Given how little is known about the questions I raise above, it is obvious that this one has not been answered analytically; I raise it here as the most general statement of the questions concerning provision of early childhood education programs.

A Recommended Research Agenda

In attempting to answer the questions I pose, the many current state initiatives regarding provision of prekindergarten offer a good laboratory in which to begin. Many of these are being evaluated or soon will be. Although these evaluations may be a good step toward understanding the effects of participation in early childhood education programs, they likely will not focus on all of the concerns raised above. In other words, even though they may shed light on the school readiness of children who do and do not participate in preschool, there will most likely remain some unanswered questions regarding adequacy of supply; the relative attractiveness, effectiveness, and efficiency of different types of programs; the kinds of information parents use to make choices; how vouchers and subsidies affect parental decisionmaking; and how producers respond to competitors' behavior.

How, then, can we determine the answers to the questions above? I propose three projects of varying scope that will help to provide answers.

Project 1: Review Existing Studies and Program Evaluations. A good starting point is to conduct a review to determine what is known about the participation by children in early childhood programs. At the most general level, studies should be included in the review if they address one or more of these questions:

1. Who provides early childhood education programs, and what are the characteristics of the programs offered? Are there systematic patterns with respect to auspices and population served, program characteris-

tics, and efficiency? Which providers respond to increases in demand and/or funding? What are the characteristics of their supply?

2. What are the relationships between program quality variables and child outcomes? Are there tradeoffs discernible between quality variables? For example, can large group size be compensated for by teacher certification or supplemental training?

The review should include both earlier research and recent program evaluations. Earlier research should be included in this review as appropriate, but particular emphasis should be given to recent evaluations that will reflect more up-to-date experience. Study of earlier and current research may offer interesting insight into how early childhood education programs operate, how they are viewed, and how they have changed over time. Inclusion of the more recent evaluations would also provide timely insight into the adequacy of supply. In analyzing the effects of program participation on child outcomes, particular attention should be paid to the validity of the analytical techniques employed and the generalizability of results across samples.

A careful review of this type will allow separation of what is known about child care programs in general as opposed to early childhood education programs in particular. Throughout this chapter I have tried to distinguish between child care and early childhood education; this review will help to further distinguish these categories. As more children are in nonparental care and if demand is growing by parents for educational components in care, the two types of programs, at least for older preschool children, may be converging over time. Insight into this possible convergence may be yielded by this review.

Project 2: Review Literature on Parental Choice and Patterns of Participation. A related project represents an effort to gain insight into the patterns of participation in early childhood education programs. Are the rates of participation across racial, ethnic, income, and education groups attributable to affordability, accessibility, or choice? The information that should be considered in this review includes the kinds of programs that parents choose and the variables that affect their choices. Variables to be considered include the availability of information about programs; whether parents pay the full cost or are subsidized or have vouchers; and the extent to which parental preferences overlap with expert recommendations.

The findings of this review could provide a foundation for the design of policy to increase participation in low-participation populations in which school readi-

ness is inadequate. For example, if the problem is one of information (either about what resources are available or about the benefits of participation in programs) rather than affordability, then parent education programs and expanded activities by resource and referral agencies might be a more effective response than increasing subsidies.

Project 3: Follow, Document, and Analyze the Preschool Program Implementation Process for One or More States. With Projects 1 and 2 as preparation and background, the next step would be to follow and analyze a state preschool program implementation process. The objective is to answer basically the same questions addressed in Project 1 and 2 but with more control over the collection of information and analysis of data and for programs that are currently being implemented.

The objective here is not to determine the benefits of participation in early childhood education programs. There is substantial evidence that such benefits exist, but more insight is needed into how those benefits are generated and how likely a system that combines public and private financing and provision is to generate those benefits and for whom. The difference is that many studies look at particular programs, rather than the range of programs offered by the system as a whole, or they do not simultaneously address the other market-related variables that should be considered. To summarize, the objective of the proposed project is to determine, for a given state or set of states, whether a largely privatized system of provision yields the desirable mix of program characteristics; which providers are supplying the programs; whether parents are able to access the care that offers these characteristics; and whether different means of allocating public funds (e.g., contracts or vouchers) are more likely to generate the desired mix of providers. By looking at a state's implementation experience, it will be possible to see how the answers to these questions differ in different markets (e.g., how income, population density, and demographic characteristics affect these outcomes).

How can this information be collected? It would be desirable to undertake a study in a large state such as New York or New Jersey that is phasing in a publicly funded preschool program that will include provision by both public and private providers. Data could be collected through surveys, meetings, and interviews. The findings could then be used to develop community profiles that document individual and market decisions with respect to production and consumption. It is interesting, too, to consider the possibility of conducting experiments that allow variation in the kinds of information that parents get, how they pay for the care they choose, and the level of quality standards that providers must meet to

see how decisions vary under these different conditions. I do not know, however, how feasible an experimental approach is likely to be.

All of these projects rely on a market-oriented perspective. By addressing issues of supply, efficiency, implication of auspices, effects of vouchers and cash payments, the role of information in decisionmaking, and the other types of issues raised above, these projects will offer answers to somewhat different questions than have been asked in many of the evaluations conducted previously. It appears that these evaluations are intended to determine what the payoff is of participation in early childhood education programs. In other words, policymakers can take the results of these evaluations and conclude that for every dollar that is spent on public preschool, so many dollars in subsequent remedial programs and other expenditures will be saved. A more market-oriented approach would facilitate determination of the relative strengths and weaknesses of offering early childhood education services in a system of different systems and auspices. Further insight can be gained into the costs and benefits of allowing more or less parental choice and of different mechanisms (e.g., vouchers) for facilitating those choices.

Conclusion

After reviewing the characteristics of the public and private aspects of the provision of early childhood education and in arguing in favor of research that will help to determine the costs and benefits of our current fragmented and mixed system of financing and provision, it is reasonable to return to the question asked at the beginning of this chapter: Why are the issues examined in this chapter important? Given the magnitude of problems regarding privatization in primary and secondary education—and of quality of education more generally—that face the United States today, why does it make sense to invest resources in analyzing what is currently a relatively small portion of the education sector? The answer is that this is a time of tremendous growth and change regarding early childhood education. Recognition by parents, educators, and policymakers of its potential contribution to the development and school readiness of children is growing; changes in arrangements (such as full-day rather than part-day programs) that allow it to serve the needs of working parents and children simultaneously are becoming more common and more acceptable; and the particularly important role that it can play in the lives of disadvantaged children and their parents trying to achieve economic self-sufficiency has urgency for these individuals as well as for policymakers.

Given that the current system incorporates such great variety, it offers an op-

portunity to assess the strengths and weaknesses of the different types of arrangements. At the same time, as more private and, more notably, public funds flow toward early childhood education, it is appropriate to consider whether our current system is using those funds as productively as possible. As more states move toward universal preschool, is it appropriate and desirable to channel funds into our current fragmented, mixed system, or might this be the time to make early childhood education a recognized and standard part of the public education system? To be able to determine what is gained and what is lost—other than in philosophical and political terms—requires answers to the questions posed above. Of course, none of these decisions about provision and financing can be made without ultimately dealing with the complexities of philosophy and politics, but it would be most desirable to begin with an empirical foundation for understanding the strengths and weaknesses of the system we have today.

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